



THE CITY OF SAN DIEGO

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) HANDBOOK

**COMMUNITY AND ECONOMIC DEVELOPMENT DEPARTMENT
COMMUNITY SERVICES DIVISION**

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I. INTRODUCTION

The purpose of this handbook is to provide an explanation of basic Community Development Block Grant (CDBG) administrative requirements for the City of San Diego. This handbook is for informational purposes only. It is not intended to be a full disclosure of federal, state or local CDBG rules, regulations or reporting requirements.

The City of San Diego uses Community Development Block Grant (CDBG) funds to benefit low- and moderate-income citizens through the prevention and elimination of neighborhood blight and to alleviate serious and immediate threats to the health and welfare of community residents. The City distributes approximately \$19 million annually from the federal government in CDBG funds.

Since 1974, federal Community Development Block Grants (CDBG) has provided a flexible source of annual funding to communities nationwide. The CDBG program offers local governments, with citizen participation, the opportunity to improve development priorities, provided that these projects:

1. Benefit low- and moderate-income persons,
2. Prevent or eliminate slums or blight, or
3. Meet other urgent community development needs.

The CDBG Entitlement Communities Program provides this federal assistance to nearly 1,000 of the largest localities in the country. The City of San Diego has been receiving funding from the U.S. Department of Housing and Urban Development (HUD) since 1975. The City has the authority to carry out all of its CDBG-related activities or award some or all of the funds to private or public nonprofit organizations, as well as, for-profit entities. The City has used these funds to revitalize neighborhoods, expand affordable housing and economic opportunities, and improve community facilities and services that benefit low-and moderate income persons. The City must use at least 70% of the entitlement for activities that either directly benefit low- or moderate-income persons or serves an area where the majority of the residents are of low- and moderate-income.

II. GENERAL ELIGIBILITY

Any Community Development Block Grant (CDBG) funded activity must comply with a National Objective **AND** an Eligible Activity as detailed below.

A. National Objectives. The following criteria should be used to determine whether a CDBG assisted activity complies with one of the three national objectives as required:

1. **Benefit to Low/Moderate Income Person.** Activities meeting one of the following criteria will be considered to benefit low/moderate income persons:
 - a. **Area Benefit Activities.** An activity that benefits all residents in a particular area, where at least 51% of the residents are low- and moderate-income persons. CDBG regulations require the recipient to document that activities were performed in CDBG-eligible census tracts.
 - b. **Limited Clientele Activities.** An activity that benefits a limited clientele at least 51% of whom are low- or moderate-income persons or benefit a client presumed to be low- or moderate-income persons. Presumed benefit clients are abused children,

battered spouses, elderly persons, adults meeting the Bureau of the Census' current Population Reports definition of "severely disabled", homeless persons, illiterate adults, Persons living with AIDS, and migrant farm workers. CDBG regulations require the recipient to document the demographics and income levels of clientele provided such activities.

- c. **Housing Activities.** An activity carried out for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by 51% low- or moderate-income households. CDBG regulations require the recipient to document number of households served, number of units completed and demographics and income level of the household occupying the unit.
 - d. **Job Creation or Retention Activities.** An activity designed to create or retain permanent jobs where at least 51% of the jobs, computed on a full time basis, involve the employment of low- or moderate-income persons. CDBG regulations require the recipient to document one of the following: (1) for an activity that creates jobs, the recipient must document that at least 51% of the jobs will be held by, or will be available to, low- or moderate-income persons, and (2) for an activity that retains jobs, the recipient must document that the jobs would have been lost without CDBG assistance and that either or both the job is known to be held by a low- or moderate-income person or the job can reasonably be expected to turn over within the following two years and that steps will be taken to ensure that it will be filled by, or made available to, a low- or moderate-income person upon turnover.
2. **Elimination of Slum and Blight.** Activities meeting one or more of the following criteria, in the absence of substantial evidence to the contrary, will be considered to aid in the prevention or elimination of slums or blight:
- a. **Address Slums or Blight on an Area Basis.** If an area meets **all** of the following: (1) State of California definition of slum or blight, (2) there is a substantial number of deteriorated or deteriorated buildings or public improvements in the area, (3) the activity addresses one or more of the conditions that contributed to the deterioration of the area, and (4) documentation is maintained by the City on the boundaries of the area and conditions that qualified the area at time of its designation.
 - b. **Address Slums or Blight on a Spot Basis.** If the project will provide acquisition, clearance, relocation, historic preservation and building rehabilitation activities which eliminate specific conditions of blight or physical decay on a spot basis, not located in a slum or blighted area will meet this objective. Under this criterion, rehabilitation is limited to the extent necessary to eliminate specific conditions detrimental to public health and safety.
3. **Urgent Need.** If the recipient certifies that (1) the activity is designed to alleviate existing conditions, which pose a serious and immediate threat to the health or welfare of the community, which are of recent origin, or which recently became urgent, (2) that the recipient is unable to finance the activity on its own, and (3) that other sources of funding are not available. (A condition will generally be considered to be of recent origin if it developed or became critical within 18 months preceding the certification by the recipient.)

B. Eligible Activities. The following criteria should be used to determine whether a CDBG assisted activity complies with one of the basic eligible activities as required:

1. **Acquisition.** Acquisition by the recipient or other public or private, nonprofit entity, by purchase, long-term lease, donation, or otherwise, of real property (including air rights, water rights, rights-of-way, easements, and other interests therein) for any public purpose.
2. **Disposition.** Disposition, through sale, lease, donation, or otherwise of any real property acquired with CDBG funds or its retention for public purposes, including reasonable costs of temporarily managing such property or property acquired under urban renewal, provided that the proceeds from any such disposition shall be program income.
3. **Public Facilities and Improvements.** Acquisition, construction, reconstruction, rehabilitation, or installation of public facilities and improvements carried out by the recipient or other public or private, nonprofit entities. (Activities under this paragraph may be directed to the removal of material and architectural barriers that restrict the mobility and accessibility of elderly or severely disabled persons to public facilities and improvements). In undertaking such activities, design features and improvements, which promote energy efficiency, may be included. Such activities may also include the execution of architectural design features, and similar treatments intended to enhance the aesthetic quality of facilities and improvements receiving CDBG assistance, such as decorative pavements, railings, sculptures, pools of water and fountains, and other works of art. Facilities designed for use in providing shelter for persons having special needs are considered public facilities. Such facilities include shelters for the homeless; convalescent homes; hospitals; nursing homes; battered spouse shelters; halfway houses for run-away children; drug offenders or parolees; group homes for mentally retarded persons; and temporary housing for disaster victims. In certain cases, nonprofit entities and subrecipients may acquire title to public facilities. When nonprofit entities or subrecipients own such facilities, they shall be operated so as to be open for use by the general public during all normal hours of operation.
4. **Clearance Activities.** Activities include clearance, demolition, and removal of buildings and improvements, including movement of structures to other sites. Demolition of HUD assisted housing units may be undertaken only with the prior approval of HUD.
5. **Public Services.** Provision of public services (including labor, supplies and materials), including but not limited to those concerned with employment, crime prevention, childcare, health, drug abuse, education, fair housing counseling, energy conservation, welfare (but excluding the provision of income payments), homebuyer down payment assistance, or recreational needs. To be eligible for CDBG assistance a public service must be either a new service or a quantifiable increase in the level of an existing service above that which has been provided by or on behalf of the City in the 12 calendar months before the submission of the action plan. (An exception to this requirement may be made if HUD determines that any decrease in the level of a service was the result of events not within the control of the City.) The amount of CDBG funds used for public services shall not exceed 15% of the grant.
6. **Interim Assistance.** The following activities may be undertaken on an interim basis in areas exhibiting objectively determinable signs of physical deterioration where the recipient has determined that immediate action is necessary to arrest the deterioration and that permanent improvements will be carried out as soon as practicable. These are the following: (1) the repairing of streets, sidewalks, parks, playgrounds, publicly owned utilities, and public buildings; and (2) the execution of special garbage, trash, and debris removal, including neighborhood cleanup campaigns, but not the regular curbside collection of garbage or trash in an area.
7. **Payment of Non-Federal Share.** Payment of the non-Federal share required in connection with a Federal grant-in-aid program undertaken as part of CDBG activities.

8. **Relocation.** Relocation payments and other assistance for permanently and temporarily relocated individuals, families, businesses, nonprofit organizations and farm operations.
9. **Loss of Rental Income.** Payment to housing owners for losses of rental income incurred in holding, for temporary periods, housing units to be used for the relocation of individuals and families displaced by program activities.
10. **Housing Services.** Housing services, such as housing counseling in connection with tenant - based rental assistance and affordable housing projects assisted under title II of the Cranston-Gonzalez National Affordable Housing Act, energy auditing, preparation of work specifications, loan processing inspections, tenant selection, management of tenant-based rental assistance, and other services related to assisting owners, tenants, contractors, and other entities participating or seeking to participate in housing activities assisted under title II of the Cranston-Gonzalez National Affordable Housing Act.
11. **Privately Owned Utilities.** CDBG funds may be used to acquire, construct, reconstruct, rehabilitate, or install the distribution lines and facilities of privately owned utilities, including the placing underground of new or existing distribution facilities and lines.
12. **Construction of Housing.** CDBG funds may be used for the construction of housing assisted under section 17 of the United States Housing Act of 1937.
13. **Homeownership Assistance.** CDBG funds may be used to provide direct homeownership assistance to low- or moderate-income households to (1) subsidize interest rates and mortgage principal amounts for low- or moderate-income homebuyers; (2) finance acquisition, by low- or moderate-income homebuyers, of housing that is occupied by the homebuyers; (3) acquire guarantees for mortgage financing obtained by low- or moderate-income homebuyers from private lenders (except that CDBG funds may not be used to guarantee such mortgage financing directly, and grantees may not provide such guarantees directly); (4) provide up to 50 percent of any down payment required from a low- or moderate-income homebuyer; or (5) pay reasonable closing costs (normally associated with the purchase of a home) incurred by a low- or moderate-income homebuyer.
14. **Microenterprise Assistance.** The provision of assistance either through the recipient directly or through public and private organizations, agencies and other subrecipients (including nonprofit and for-profit subrecipients) to facilitate economic development by (1) providing credit, including but not limited to, grants, loans, loan guarantees, and other forms of financial support, for the establishment, stabilization and expansion of microenterprises; (2) providing technical assistance, advice and business support services to owners of microenterprises and persons developing microenterprises; and (3) providing general support, including but not limited to, peer support programs, counseling, childcare, transportation and other similar services to owners of microenterprises and persons developing microenterprises. Assistance may also include training, technical assistance, or other support services to increase the capacity of the recipient or subrecipient to carry out the activities.
15. **Technical Assistance.** Provision of technical assistance to public or nonprofit entities to increase the capacity of such entities to carry out eligible neighborhood revitalization or economic development activities.
16. **Rehabilitation.** CDBG funds may be used to:
 - a. Finance the following: (1) privately owned buildings and improvements for residential purposes; (2) improvements to a single family residential property, which is also used as a place of business, which are required in order to operate the business, need not be considered to be rehabilitation of a commercial or an industrial building, if the improvements also provide general benefit to the residential occupants of the building; (3) low-income public housing and other publicly owned residential

buildings and improvements; (4) publicly or privately owned commercial or industrial buildings, except that the rehabilitation of such buildings owned by a private, for-profit business is limited to improvements to the exterior of the building and the correction of code violations; (5) nonprofit-owned, nonresidential buildings and improvements; and (6) manufactured housing when such housing constitutes part of the community's permanent housing stock.

- b. Finance the following types of rehabilitation activities, and related costs, either singly, or in combination, through the use of grants, loans, loan guarantees, interest supplements, or other means for buildings and improvements: (1) assistance to private individuals and entities, including profit making and nonprofit organizations, to acquire for the purpose of rehabilitation and to rehabilitate properties for use or resale for residential purposes; (2) labor, materials, and other costs of rehabilitation of properties, including (i) repair directed toward an accumulation of deferred maintenance, (ii) replacement of principal fixtures and components of existing structures, (iii) installation of security devices, including smoke detectors and dead bolt locks, and (iv) renovation through alterations, additions to, or enhancement of existing structures, which may be undertaken singly or in combination; (3) loans for refinancing existing indebtedness secured by a property being rehabilitated with CDBG funds, if such financing is determined by the recipient to be necessary or appropriate to achieve the locality's community development objectives; (4) improvements to increase the efficient use of energy in structures through such means as installation of storm windows and doors, siding, wall and attic insulation, and conversion, modification, or replacement of heating and cooling equipment, including the use of solar energy equipment; (5) improvements to increase the efficient use of water through such means as water saving faucets and showerheads and repair of water leaks; (6) connection of residential structures to water distribution lines or local sewer collection lines. (7) For rehabilitation carried out with CDBG funds, costs of: (i) initial homeowner warranty premiums; (ii) hazard insurance premiums, except where assistance is provided in the form of a grant; (iii) flood insurance premiums for properties covered by the Flood Disaster Protection Act of 1973; and (iv) procedures concerning inspection and testing for and abatement of lead-based paint. (8) Costs of acquiring tools to be lent to owners, tenants, and others who will use such tools to carry out rehabilitation; (9) rehabilitation services, such as rehabilitation counseling, energy auditing, preparation of work specifications, loan processing, inspections, and other services related to assisting owners, tenants, contractors, and other entities, participating or seeking to participate in rehabilitation; (10) assistance for the rehabilitation of housing under section 17 of the United States Housing Act of 1937; (11) improvements designed to remove material and architectural barriers that restrict the mobility and accessibility of elderly or severely disabled persons to buildings and improvements.
17. **Code Enforcement.** Costs incurred for inspection for code violations and enforcement of codes (e.g., salaries and related expenses of code enforcement inspectors and legal proceedings, but not including the cost of correcting the violations) in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services to be provided, may be expected to arrest the decline of the area.
 18. **Historic Preservation.** CDBG funds may be used for the rehabilitation, preservation or restoration of historic properties, whether publicly or privately owned. Historic properties are those sites or structures that are either (1) listed in or eligible to be listed in the National

Register of Historic Places, (2) listed in a State or local inventory of historic places, or (3) designated as a State or local landmark or historic district by appropriate law or ordinance. (Historic preservation, however, is not authorized for buildings used for the general conduct of government).

19. **Renovation of Closed Buildings.** CDBG funds may be used to renovate closed buildings, such as closed school buildings, for use as an eligible public facility or to rehabilitate such buildings for housing.
20. **Lead-Based Paint Hazard Evaluation and Reduction.** Lead-based paint hazard evaluation and reduction as defined in section 1004 of the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851b).
21. **Special Economic Development Activities.** A recipient may use CDBG funds for special economic development activities in addition to other activities authorized in this subpart, which may be carried out as part of an economic development project. (Special activities authorized under this section do not include assistance for the construction of new housing.) Special economic development activities include: (1) The acquisition, construction, reconstruction, rehabilitation or installation of commercial or industrial buildings, structures, and other real property equipment and improvements, including railroad spurs or similar extensions. Such activities may be carried out by the recipient or public or private, nonprofit subrecipients. (2) The provision of assistance to a private, for-profit business, including, but not limited to, grants, loans, loan guarantees, interest supplements, technical assistance, and other forms of support, for any activity where the assistance is appropriate to carry out an economic development project. In selecting businesses to assist, the City shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods. (3) Economic development services in connection with activities eligible under this section, including but not limited to, (i) outreach efforts to market available forms of assistance; (ii) screening of applicants; (iii) reviewing and underwriting applications for assistance; (iv) preparation of all necessary agreements; management of assisted activities; and (v) the screening, referral, and placement of applicants for employment opportunities generated by CDBG eligible economic development activities, including the cost of providing necessary training for persons filling those positions.
22. **Planning.** CDBG funds may be used for:
 - a. Planning activities which consist of all costs of data gathering, studies, analysis, and preparation of plans and the identification of actions that will implement such plans, including, but not limited to: (1) comprehensive plans; (2) community development plans; (3) functional plans, in areas such as: (i) housing, including the development of a housing assistance plan; (ii) land use and urban environmental design; (iii) economic development; (iv) open space and recreation; (v) energy use and conservation; (vi) floodplain and wetlands management in accordance with the requirements of Executive Orders 11988 and 11990; (vii) transportation; (viii) utilities; and (ix) historic preservation. (4) Other plans and studies such as: (i) small area and neighborhood plans; (ii) capital improvements programs; and (iii) individual project plans (but excluding engineering and design costs). (iv) The reasonable costs of general environmental, urban environmental design and historic preservation studies. (v) Strategies and action programs to implement plans, including the development of codes, ordinances, and regulations; (vi) support of clearinghouse functions, such as those specified in Executive Order 12372; and (vi) analysis of impediments to fair housing choice.

- b. Policy-planning-management-capacity building activities which will enable the recipient to: (1) determine its needs; (2) set long-term goals and short-term objectives, including those related to urban environmental design; (3) devise programs and activities to meet these goals and objectives; (4) evaluate the progress of such programs and activities in accomplishing these goals and objectives; and (5) carry out management, coordination and monitoring of activities necessary for effective planning implementation, but excluding the costs necessary to implement such plans.

C. Ineligible Activities. The following are **not** CDBG eligible activities:

1. Buildings for the general conduct of government (e.g., city hall).
2. General government expenses.
3. Political activities.
4. New housing construction, except under certain conditions or when carried out by a CBDO.
5. Income payments.

D. Exception. The following activities may **not** be funded with CDBG funds, **unless** authorized as a special economic development activity, public services, interim assistance, program administration, OR when carried out by a CDBO:

1. Purchase of construction equipment or furnishings and personal property.
2. Operating and maintenance expenses (of public facilities, improvements and services).

III. APPLICATION PROCESS

CDBG funding is made available on an annual basis. Applications are available in December and are due to be submitted to the City at the end of January. All applications are cataloged and distributed to the City Council. A public hearing is scheduled and applicants are given two minutes to address the City Council regarding an application. Council discussion and decision making concerning fiscal year allocations is scheduled within one to three weeks after the public hearing. Applicants are given notification of the time and date of the public hearing and allocation meeting.

IV. FUNDING PROCESS

Notification of allocations usually occurs during the month of May. Funds will not be available until the start of the new fiscal year, July 1. All CDBG-awarded applicants must have an executed contract with the City prior to disbursement of any funds.

V. CONTRACTING PROCESS

All awarded applicants are forwarded to the appropriate City departments at which time a project manager is assigned. The project manager contacts the applicant within three to four weeks after the allocation is made. Upon contact, a meeting is held to determine exactly how the funds will be put to use. If the applicant was not awarded the full amount requested, then the scope of the project will be revised accordingly with approval from City staff.

City Costs. Listed below are City procedures that must be complied with in order to execute a contract for certain Eligible Activities.

Acquisition

A. Facilities Purchased Completely with CDBG Funds.

1. An independent appraisal must be conducted prior to any acquisition in order to determine fair market value.
2. All offers for purchase will be made by the City and based on the fair market value.
3. All properties acquired with CDBG funds will be subject to the Uniform Relocation Act.
4. All costs associated with the acquisition will be paid from the grant and should be included when determining the budget.
5. Any facility purchased by the City will remain in its ownership and be leased to the agency
6. The agency will be responsible for all maintenance and operating costs during the life of the lease.

B. CDBG Funds Used as Partial Payment for Facility.

1. All approved projects are subject to a formal agreement between the City and the applicant.
2. Fair market value must be established by an independent appraisal that is reviewed and approved by the City.
3. All acquisitions are subject to the Uniform Relocation Act.
4. The City will retain interest in property by securing its contribution with a deed of trust.

C. All Acquisitions.

1. The City has agreed, as a condition of receiving CDBG funds, to replace on a one-for-one basis any low-income housing units removed from the market as a result of a CDBG project. To this end, it will be necessary for all acquisition projects to survey residents of any property that is slated for acquisition to determine if low-income units are affected.
2. All acquisitions require an environmental clearance prior to acquisition.
3. All costs associated with the acquisition will be paid from the grant, and should be included when determining the budget.

Construction/Rehabilitation

1. Projects involving construction, remodeling, or repair are administered and monitored by the **Engineering and Capital Projects Department** in accordance with a formal agreement between the City of San Diego and the successful applicant agency. The department does not provide inspections or approve constructed work. Permitted work is inspected by the Development Services Department, otherwise plans and specifications are inspected by the agency and consultant.
2. The agreement is prepared by City staff and signed by the applicant agency, the department's Deputy Director and City Attorney, then is routed through a City Manager's Action.
3. The agency shall abide by Equal Opportunity, Minority Business Enterprise, Women Business Enterprise and Federal Minimum Wage Scales and Labor Standards and the

- Americans with Disabilities Act (ADA) that are applicable to all recipients of grant funds, including contractors.
4. The agency will be required to hire a registered architect/engineer to perform design work. The City advertises for bids, conducts pre-bid meetings at the jobsite and opens bids publicly. The City then recommends award of the lowest responsible bidder to the applicant agency. The applicant agency then awards the contract to the selected contractor. The City also conducts a pre-construction meeting where the project is discussed regarding schedule, scope of work, regulations, prevailing wages, certified payrolls and affirmative action reports. Ultimately, all pay requests are approved by the City based on the review of reports, payrolls and work completed.
 5. The agency's construction plans and specifications must comply with all applicable local codes, and all Federal, State, and local regulations including the Americans with Disabilities Act (ADA) and Section 504 of the Rehabilitation Act of 1993. Also, the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA).
 6. The agency shall secure and pay for all permits needed for the construction work.
 7. Agency procurement, including professional design and subsequent construction, must be publicly advertised when grant funds are used. City administrative regulations are followed when procuring professional consultants and contractors. A Request for Proposal is provided to consultants with a scope of work. Submittals are reviewed and five are interviewed and rated based on established criteria. As for contractors, the City's Minor Construction Program solicits bids for under \$250,000 based on their guidelines. Projects over \$250,000 are publicly advertised.
 8. The City will actively monitor all phases of the project, including design, advertising for bids, pre-bid and pre-construction meetings, bid openings and construction for compliance with all applicable codes and regulations.
 9. The City will withhold **ten percent** from each progress payment to the agency upon 50% completion of the project. Once the project is considered to be substantially complete, the amount of withholding is reduced to **five percent**.
 10. Projects partially funded by grant funds and partially by private funds are treated as Federally funded, insofar as requirements listed herein apply.

Environmental Clearances

1. All approved projects will require environmental clearance from the **Development Services Department**. The Development Services Department issues certain discretionary permits and provides environmental assessments as required under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA). All CDBG projects must undergo environmental review in accordance with NEPA.
2. Development Services will determine the level of environmental processing required.
3. Depending on the type of document, a 20 to 45 day public comment period may be required within the environmental review process.
4. The project and its associated permits may also require approval from other City bodies such as the Planning Commission, Park and Recreation Board, etc.

Economic Development, Assistance to Microenterprises, Planning, Capacity Building

1. Approved projects are administered and monitored by the **Economic Development or Redevelopment Divisions of the Community and Economic Development Department** in

accordance with a formal agreement between the City of San Diego and the successful applicant organization.

2. The organization shall comply fully with Equal Opportunity, Minority/Business Enterprise, Americans with Disabilities Act and all applicable Federal procurement requirements.
3. The City's administrative and monitoring costs are paid from the organization's grant. To cover these costs, **eight percent** of the allocation or \$10,000, whichever is less, is applied to the budget.